

CALCULATION OF PRODUCTION PRICE ANALYSIS IN CV PELANGI ADVERTISING

Totok Susilo Pammuji Nugroho

STIE Atma Bhakti, Central Java, Indonesia

Email: tosiepamuji@gmail.com

Abstract : This study aims to determine the cost of production at CV Pelangi Advertising company. The company is engaged in the rental of advertising services which offer a point of location for the use of business people. This research uses qualitative method that is by obtaining company data then compare the method used. Company data used are all cost components that have occurred in 2017 then formulated to be able to make an estimate of cost of production in 2018. The method used to compare the calculation of cost production is company method and full costing method. The results shows that there was a difference between company method and full costing method, where the result of full costing method is bigger. This is because the company method there are several methods that have not been entered so that will affect the calculation of cost of production. Thus the company should use the method of full costing in calculating the cost of goods manufactured.

Keywords : *company method, full costing method, cost of production*

1. Inroduction

In today's business competition in the world is very tight. Lots of people and business entities are vying to increase their wealth (Docquier and Machado, 2015). Business people continue to try to optimize their assets, so from the business actors of course not everything will be a great success. This is what drives global competition at the moment (Stein, Oliveira and Andreotti, 2015).

The current global competition that takes place makes the strong will survive and the weak manage the business entity will be eliminated (Colantone and Stanig, 2016). The business world is very cruel, if halfheartedly in the business world at least he has two choices (1) withdraw from the business world, (2) strengthen his determination to dabbled in the business world. Of course retreat in the business world is not recommended.

Chang, Hall and Paz (2017) convey that on global competition, companies who want to advance business of course must pay attention to all aspects that influence it. One important aspect affecting the growth of the company is the calculation of cost of goods manufactured. The calculation of the cost of production is of course always implemented by each company that runs the business.

The calculation of the cost of production is very important in the attention of the business. With the calculation of the cost of production the right, true and accurate then a company will be able to determine the selling price of the appropriate product on the profit desired by the company (Isaksson and Seifert, 2016). Therefore the higher the company then the emphasis on the calculation of the cost of the company will be higher too. This is because a lot of expenses incurred in the business, so the transactions should be noted.

Often we meet many companies who feel the benefits are getting smaller, maybe even going collaps. One of the causes is due to errors in the calculation of the cost of production. Because there are some transactions that should be recorded and put into it, but due to errors resulted in the transactions are not recorded (Kulikova, Gubaidullina and Elsukova, 2016). This of course causes the cost of production to be low, so that in determining the desired profit will never be appropriate.

The calculation of the cost of production properly, precisely and accurately is not an easy matter. It is important to pay attention to any transactions that occur within a company. By scrutinizing, recording every transaction into the supposedly existing items, the components in the calculation of the cost of production will be in accordance with the actual circumstances (Greiff and Egbert, 2016).

This study focuses on private sector companies. This is because the company's sector is indeed in determining the desired profit is very dependent on how to formulate the calculation of the cost of goods production. In this circumstance of course recruitment of employees to be one very important thing. If the company actually recruits the right people then in calculating the cost of production will be accurate and accountable (Peck, 2017).

An advertising company is a private sector company engaged in services, where the company provides advertising space for rent to its tenants. The tenants referred to here consist of products on the market, government and other sectors. The location point of the space provided of course must be many and composed of various regions, in this case of course to meet the demand of their client who want to plug in various places.

The main problem in this research is how important the calculation of cost of

production for advertising company. Calculation of the cost of production of course becomes a very important thing to do advertising company. This is because there are so many transactions from making billboards, permits, marketing and other activities to watch out for.

After calculating the cost of production then the advertising company will be able to calculate how much cost of goods sold each point. The selling price of each point depends on how accurate the calculation of cost of goods manufactured. In the advertising company the cost of production is very large therefore it is not surprising that the lease at each point is considered very expensive.

In an advertising company it is natural to have an accountant to run a financial system in his company. The accountant will scrutinize each of the billboard transactions, building permits, installation permits, direct labor costs, and other expenses. Therefore research on the calculation of the cost of production is very important to be done in the company engaged in the rental of this billboard.

2. Literatures Review

2.1 Cost Accounting

The discipline of cost accounting requires the recording, classification and computation of all kinds of production processes to become ready-made or finished goods (Othus et al., 2017). The production process in question is all kinds of raw material costs, direct labor costs, overhead costs and other costs. So the science of cost accounting is very important to be able to advance a company, both companies public sector and private sector (Chen, Li and Zou, 2015).

Johnstone (2014) states that the person who stays as a manager must understand the basic science of cost accounting. This is

because without knowledge of accounting science especially cost accounting then he will never be able to run the company to account for his work. The results of his work must of course be reported to external parties (creditors, investors, debtors) as well as internal parties (management and owners).

Cost accounting science is very important for the growth of a company. This is because cost accounting studies some aspects of science such as cost of production, full costing, variable costing method, average method of company method and others, where the science is needed by the company (Chen, Li and Zou , 2015).

2.2 Cost of Production

The calculation of the cost of production is very important to do for a company. It is proposed in this method that the overall cost in the production process to the finished goods will be recorded, summarized, monitored and classified according to their respective components (Plotkin, et al, 2017). The calculation of cost of goods sold will determine how much cost of goods sold. In this case the price offered to the consumer should not be too high nor sangan until too low, but in accordance with the desired profit of a company (Chu, et al, 2017).

Glassman et al. (2016) stated that the elements in the calculation of cost of goods manufactured consists of several things: direct material costs, direct labor costs and factory overhead costs. All these elements must be calculated to be able to formulate how much the cost of production . Collection method can use company method and full costing method.

2.3 Company Method

Company method is a method chosen by the company to determine the policies related to a company's finances. Thus in calculating the cost of the process the company will use the

appropriate method or not with accounting science (Dalmarco, et al, 2017).

In a private-sector enterprise often can not fully apply accounting sciences in its financial activities, therefore the use of enterprise methods is a quick way of determining the cost of production. The method of the company can actually succeed to be executed in determining the calculation of the cost of production but by increasing the desired profit in the determination of cost of goods sold (Henarejos and Prados, 2017).

2.4 Full Costing Method

Full costing method is a method that includes all the cost of the product on the calculation of cost of production. In this case all costs will not be separated but have been made one to count in one unit. In the method of full costing all elements of the cost of both fixed and variable costs can be one (Jasinski, Meredith and Kirwa, 2015).

If a company chooses a full costing method, then all components or cost elements will be recorded so that no single transaction will be missed. The calculation of the cost of production by using this method is highly recommended for companies engaged in the private sector. This is because this method is very simple and easy to do so long as the base of the culprit is an accountant (Marone, et al, 2015).

3. Research Methods

3.1 Types of Research

This research uses qualitative method, which uses the method of collecting data in the company to be reviewed and compared between the use of methods in determining the cost of production. Qualitative analysis process is done to determine the calculation of cost of production at CV Pelangi Advertising.

3.2 Place and time of research

This research was conducted in CV Pelangi Advertising located in Joyotakan, Serengan, Surakarta City with research time for three months from December 2017 until February 2018.

3.3 Data Collection Technique

In this paper the data and information obtained or collected by several stages, among others:

1. Interview

Conducting question and answer to the staff who hold the financial statements, how the company makes the recording of business activities undertaken.

2. Observation

Observation is done by observing the financial statements and evidence of corporate transactions whether it is in accordance with applicable standards or not.

3. Documentation

Summarize and record all kinds of transactions in accordance with the data required to formulate the calculation of cost of goods manufactured.

3.4 Data Analysis Method

Data analysis is done by using descriptive analysis, which aims to understand the data that has been collected, classified, analyzed and interpreted obtained from CV Pelangi Advertising. After the steps are live calculated using the company method and full costing method then compare between the two methods.

3.5 Data Analysis Technique

In determining the technique of data analysis there are several things done among others:

Understand the type of corporate methods and full costing to formulate the cost of production

1. Collecting data, summarizing, summarizing and analyzing existing data.
2. Classify the data in accordance with the classification of each cost.
3. Calculating the cost of production by using company methods.
4. Calculating the cost of production by using the full costing method.
5. Compare the calculation of cost of goods manufactured between full costing method and company method.

4. Result and Discussion

4.1 Result

Within a month of CV Pelangi Advertising company can rent billboard reklamenya as much as 12 points with average rental turnover of Rp.185.000.000,00 per point.

a. Report on Cost of Production by using company method in 2017

Company Method

| | |
|------------------------------|------------|
| Direct Materials | 10,045,000 |
| Direct Labor | 667,460 |
| Variable Overhead | 119.857 |
| Total Variable Product. Cost | 10,832,317 |
| Fixed Overhead | 97.325 |
| Cost of Production | 10,948,202 |

* In thousands of rupiah

b. Production Cost Report using full costing method in 2017

Full Costing

| | |
|-------------------------------|------------|
| Direct Materials | 10,045,000 |
| Direct Labor | 680,400 |
| Overhead Variable | 125.457 |
| Total Variable Product. Costs | 10,850,857 |
| Fixed Overhead | 97.345 |
| Cost of Production | 10,948,202 |

* In thousands of rupiah

c. Determination of Cost of Production by Using Variable Costing at CV Pelangi Advertising

Variable Costing

| | |
|-------------------------------|------------|
| Direct Materials | 10,045,000 |
| Direct Labor | 680,400 |
| Overhead Variable | 125.457 |
| Total Variable Product. Costs | 10,850,857 |
| * In thousands of rupiah | |

4.2 Discussion

Comparison of Cost of Production by Using Company Method and Full Costing Method

a. Full Costing Method of Difference Company Method

| | |
|-------------------|--------|
| Materials Direct | - |
| Direct Labor | 12,940 |
| Overhead Variable | 5,600 |
| Fixed Overhead | 20 |
| Total | 18,560 |

* In Thousand Rupiah

Based on the above table there is a difference in the determination of the cost of production by using the two methods. The total of the full costing method calculation is 10.948.202 (in thousands of rupiah) while the calculation of the company method is 10,929,642 (in thousands of rupiah), resulting in a difference of 18,560 (in thousands of rupiah). Thus, the use of methods on the calculation of production prices also affect its value.

b. Differences in the resulting value caused by both methods are due to:

In determining direct labor costs CV Pelangi Advertising pay less attention to how long hours overtime the workers. In this case if a worker has been overtime for 4 hours but the company only pay 2 hours overtime only.

In inserting variable factory overhead and factory overhead CV CV PELANGI Advertiding in using the method there are some components that have not entered into it, so the total amount is different.

5. Conclusion, Limitation and Suggestion

5.1 Conclusion

1. Determination of the cost of production must be done properly. This is because if wrong enter the cost or not yet entered the cost of production will be lower. So the determination of the desired profit the company will change.
2. Calculation of cost of production by using the full costing method can give greater results than with the company method. By using the company method there are some unrecorded costs. In contrast to using a full costing method that is able to cover all cost components. So the full costing method should be chosen by the head of the company in determining the cost of production.
3. Factory overhead costs, directly or indirectly, must be considered by the company. This is because if the overhead cost is often ignored to be recorded in expenditure, so it is not included in the calculation of cost of goods manufactured

5.2 Limitations and Suggestions

1. This study uses only samples from one advertising company only, so the results of advertising companies with each other may be can different. Future research is expected to compare between advertising companies, thus the results can be more accurate again.
2. Research that test the calculation of the cost of production of advertising company does not exist, so the theories used are only general. Further research is expected to explore more theories to support similar research.

5.3 Limitations and Suggestions

1. This study uses only samples from one advertising company only, so the results of

advertising companies with each other may be can different. Future research is expected to compare between advertising companies, thus the results can be more accurate again.

2. Research that test the calculation of the cost of production of advertising company does not exist, so the theories used are only general. Further research is expected to explore more theories to support similar research.

References

- Chang, H., C.M. Hall. and M. Paz, “Customer Concentration and Cost Structure”. Working Paper of Cornell University School of Hotel Administration, 2017.
- Chen, Z., O. Z. Li., H. Zou, “Director’s and Officer’s Liability Insurance and the Cost of Equity”. *Journal of Accounting and Economics*, 2015
- Chu, X., D. Yang., X. Li., R. Zhou, “Evaluation of CCHP System Performance Based on Operational Cost Considering Carbon Tax”. *Energy Procedia*, 142, 2017, pp. 2930-2935.
- Colantone, I. and P. Stanig, “Global Competition and Brexit”. Working Paper Universita Commerciale, 2016.
- Dalmarco, G., A. E. Maehler., et al, “The Use of Knowledge Management Practices by Brazilian Startup Companies”. *RAI Revista de Administracilo*, 2017, pp. 226-234
- Docquier, F. and J.Machado., “Global Competition for Attracting talents and the World Economy”. *Journal of The World Economy*, Brussels, Belgium, 2015.
- Glassman, A., O. Canon., and R. Silverman, “How to Get Cost-Effectiveness Analysis Right? The Case of Vaccine Economics in Latin America”. *Value in Health* , 2016, pp 913-920
- Greiff, M. and H. Egbert., “A Survey of the Empirical Evidence on PWYW Pricing”. Working Paper University of Marburg, 2016.
- Henarejos., A. C. T. F. and M. A. H. Prados., “The Dual Vocational Training. Program of Labor Health in The Company”. *Procedia –Social and Behavioral Sciences*, 2017, 237, pp. 1026-2031
- Isaksson. O.H.D. and R. W. Seifert., “Quantifying the Bullwhip Effect Using Two-Echelon Data: A Cross-Industry Empirical Investigation”. *Int. J. Production Economics*, 2016, 171, pp. 311-320
- Jasinski, D., J. Meredith., K. Kirwan., “A Comprehensive Review of Full Costing Accounting methods and Their Applicability to the Automotive Industry”. *Journal of Cleaner Production*, 2015, pp. 1123-1139.
- Johnstone, D. J. “The Effect of Information on Uncertainty and the Cost of Capital”. Working paper University of Sydney, 2014.
- Kulikova, L.I., Gubaidullina and T. V. Elsukova., “Disclosure of the Risk of the Organization Influencing Decision Making by Users of Financial Reporting”. *International Business Management*, Kazan, Rusia, 2016, 10 (22), pp. 5280-5285.
- Marone, E., M., Bortocci., et al., “The Cost of Making Wine : A Tuscan Case Study Based on A Full Cost Approach”. *Winw Economics and Policy*, 2017, pp. 88-97.
- Othus, M., A. Bansal., L. Koepl., et al., “Accounting for Cured Patients in Cost-Effectiveness Analysis”. *Value in Health*, 2017, 20, pp. 705-709.
- Peck, J. R., “Can Hiring Quotas Work? The Effect of the Nitaqat Program on the

Saudi Private Sektor”. *American Economic Journal : Economic Policy*, 2017, 9 (2), pp. 316-347.

Plotkin, S., J. M. Robinson., G. Cunningham., et al, “The Complexity and Cost of Vaccine manufacturing- An Overview”. *Vaccine*, 35, 2017, pp. 4064-4071

Stein, S., V. Oliveira and D. Andreotti, “Cash, Competition, or Charity : International Students and Global Imaginary”. *Journal of High Education*, Vancouver, Canada, 2016, 72, pp. 225-239.